International nod for Joburg's credit control

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Fitch, an international ratings agency, upgrades the City's long-term credit rating, just a day after a local company gives Johannesburg the thumbs up.

GLOBAL credit ratings agency, Fitch Ratings, has expressed its confidence in the way the City of Johannesburg handles its vast finances, upgrading its long-term credit rating.

Fitch Ratings has upgraded the City's long-term national ratings from A- (zaf) to A (zaf), while its short-term credit rating has been affirmed at F1 (zaf). The City's rating outlook is also said to be positive. The new and improved rating, which is effective from 30 May, comes shortly after local ratings agency, CA-Ratings, upped its assessment.

Credit rating agencies provide markets with credit opinions based on ongoing analysis of the particular investment.

Johannesburg's ratings are reviewed annually, in terms of international standards and benchmarks, according to City Treasurer, Jason Ngobeni.

With the City set to issue its fourth municipal bond on 31 May, the ratings would help reduce the cost of borrowing, used mainly to fund capital expenditure projects, Ngobeni added.

Fitch also upgraded the City's long-term rating of the R1-billion partially guaranteed, 12-year bond (CoJ 02) from AA- to AA (zaf). The CoJ 02 bond was issued 2004. The City's 2005 Domestic Medium Term Note programme of R6-billion has been rated A (zaf). A statement from Fitch stresses, however, "the ratings are for the general medium term note programme and for the first specified issues only; it cannot be assumed that each individual issue under the programme carries the applicable programme rating."

The upcoming R1,2-billion senior unsecured bond issue has been assigned an expected long-term rating of A (zaf), which will be confirmed on reception of final bond documentation.

Improved budgetary performance
The agency cites improved budgetary performance owing to strengthening management operations and growing economy, as well as the City's prudent stance on debt management and stable debt ratios as reasons for the credit rating upgrade.

"Despite long-term challenges, such as income inequalities and low labour participation rates, the rating outlook remains positive," the statement adds.

Future ratings upgrades "would take into consideration the consolidation of the City's operating margin and the R15-billion investment programme not triggering a debt-to-revenue ration overshooting 45-50 percent, up from the current 40 percent", the agency says.

Ngobeni pointed out that another factor was the City's improved liquidity to meet unforeseen liabilities - from R700-million to the current R1,6-billion.

"We are relying more and more on our own cash reserves," Ngobeni said.

"We still need to borrow money though as the City's infrastructure backlog is still very much in consideration as far as capital expenditure costs are concerned."